Asymmetric Price Pressures and Food Volatility: Rural–Urban Inflation Divergence in India's 2024 CPI Series

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***Abstract*—Background: India moved to a 2024-based consumer price index in February 2026. Since then rural inflation has pulled away from urban inflation while food prices accelerated. Whether the gap is simply the food-heavy rural basket at work, or something more, is unsettled. Methods: We use official releases for January to October 2026: headline and food inflation by sector, division-level indices and weights, and state-level series. The October gap is split exactly into a composition part (different expenditure shares) and a price part (different division inflation). Trend, paired and rank-based tests assess persistence and breadth. Results: The headline gap grew from −0.02 to 1.22 percentage points while combined food inflation rose from 2.1% to 8.9%. Composition accounts for 0.58 points of the October gap and within-division price differences for 0.63. Rural inflation was higher in nine of twelve divisions and in 32 of 35 states and union territories, against 18 in January. Monthly price changes did not differ significantly over the full sample, but rural rises exceeded urban rises in every month from May 2026 (mean difference 0.17 points, p = 0.01). Conclusion: The divergence is broad and only partly a weighting effect. It looks more like a food shock that landed harder on rural prices. Ten months are too few to say whether it will close, as work on the older series suggests.**

***Index Terms*—consumer price index, rural–urban inflation, food inflation, base revision, India**

I. Introduction

On 12 February 2026 the Ministry of Statistics and Programme Implementation (MoSPI) published India's first consumer price inflation figures on a new base year, 2024=100, replacing the 2012 series that had run for more than a decade [1]. The opening reading was unremarkable. Combined inflation for January came in at 2.74 per cent, with rural and urban inflation at 2.73 and 2.75 per cent, and there was little reason to compare the two. By October the picture had changed. Combined inflation reached 6.09 per cent, the highest reading in the new series so far, with rural inflation at 6.63 per cent and urban inflation at 5.41 per cent [2]. Two indices that began the year level had come apart by 1.2 percentage points.

That matters for a plain reason. The number that anchors most policy discussion is the combined index, which is a weighted average of the rural and urban indices [1]. Households do not buy the combined basket. A farming family in a village and a salaried tenant in a metropolitan city face different prices and spend their budgets differently, and when the two indices move apart the headline rate describes neither of them well.

Two readings of the gap compete. The first is mechanical. Rural households spend a larger share of their budgets on food (42.0 per cent of the rural basket against 30.3 per cent of the urban one in the 2024 weights [1]), so any food price shock will push rural inflation above urban inflation even if rural and urban prices behave identically. The second reading is that rural and urban prices really are diverging, perhaps because supply chains, retail structures or non-food price pressures differ between the two. The distinction is not

academic. If the first reading holds, the gap is an arithmetic echo of the food shock and calls for no sector-specific attention. If the second holds, something about how price pressure reaches rural markets needs to be understood by those who set policy and by those who compile the statistics.

The base revision makes the question harder to settle from earlier work. The new index takes its weights from the Household Consumption Expenditure Survey 2023–24, adopts a 12-division classification based on COICOP 2018, widens the basket to 358 items and, for the first time, includes rural house rent [1]. Studies of rural–urban inflation on the 2012 series, such as the Reserve Bank of India's [3], worked with baskets of a different structure (the rural index then had no housing component at all) and cannot be assumed to carry over.

This paper asks what has driven the divergence in the first ten months of the 2024 series and how widespread it is. We work with four hypotheses. H1: the rural–urban gap in headline inflation widened persistently through 2026 instead of fluctuating around zero. H2: the widening is led by food but is not only a weighting effect, so that within-division price differences contribute materially. H3: the divergence is broad-based, visible across most consumption divisions and most states. H4: rural prices rose faster than urban prices month on month during the 2026 acceleration, without any general difference in volatility between the two.

The paper contributes in three ways. It documents the sector pattern in the new series using nothing but official data. It exploits the way the index is constructed to decompose the gap exactly, which allows the composition and price channels to be measured instead of argued about. And it checks how broad the pattern is across divisions, consumption groups and states. Section 2 reviews related work, Section 3 describes data and methods, Section 4 presents and discusses the results, and Section 5 concludes.

II. Literature Review

2.1 Relative price shocks and the shape of inflation

The idea that aggregate inflation depends on the distribution of price changes, and not only on their average, is old but durable. Ball and Mankiw [4] argued that when firms face costs of changing prices, large relative-price shocks to a few goods, especially skewed ones, feed into aggregate inflation. Bryan and Cecchetti [5] took the point in an empirical direction and proposed weighted medians and trimmed means as ways of looking through such shocks. For an economy in which one category, food, carries around 37 per cent of the consumer basket, the argument has obvious force: when food prices lurch, the headline moves with them, while the middle of the distribution of price changes tells a calmer story.

2.2 Food and headline inflation in India

Indian work has long treated food as the sensitive spot. Anand, Ding and Tulin [6] examined food inflation in India and what it means for monetary policy, and Patra and Ray [7] studied how household inflation expectations are formed in India and what that implies for policy. Not all evidence points the same way, however. Anwar and Guha [8], using monthly data from January 2015 to March 2020, found no long-run relationship between food and non-food prices and no relationship between food prices and rural wages. Taken together, this literature says that food prices matter, but whether food shocks spill into the rest of the basket seems to depend on the sample, the specification and the period. The data used here are too short to test spillovers formally, so we treat the question only descriptively.

2.3 Rural and urban inflation

The closest antecedent is the Reserve Bank of India's study of rural–urban inflation dynamics [3]. It reported that rural and urban inflation in India share a similar trend, cycle, persistence and volatility, and that divergences are episodic and do not last long, with the two series tied together in the long run and errors corrected in the short run. It also found that urban food inflation tends to exceed rural food inflation when food prices are rising, and the reverse when they are falling, that the 2018–2019 divergence mirrored food inflation while the 2015–2016 divergence came from items other than food and fuel, and that the food

weight differed widely between the old rural and urban baskets (54.2 and 36.3 per cent) [3]. These are useful benchmarks. They were, however, established on the 2012 series.

2.4 Research gap

Three gaps stand out. First, we could find no study of the 2024 series, which is hardly surprising for an index that is ten months old. Second, most rural–urban comparisons describe the gap and attribute it to food without separating how much comes from baskets and how much from prices. Third, evidence on breadth, on whether the gap is a national pattern or the work of a few states, is thin. The present study addresses all three, with the obvious limit that a short series cannot say whether the finding of transient divergence in [3] will hold for the new data.

III. Methodology

3.1 Research design

The study is descriptive and decompositional, built on official aggregate data. It does not estimate a structural model, partly because the new series is too short for that and partly because the question is one of accounting: how much of the gap comes from where.

3.2 Data and collection procedures

All data come from MoSPI's public releases [1], [2], [9]. The monthly all-India general index for the rural, urban and combined sectors from January 2025 to October 2026 was taken from the annexure of the October 2026 release [2]. The 2025 values are compiled on the new basis during the overlap year; only the history before 2025 was back-cast with linking factors [1], and we do not use that history. Year-on-year inflation recomputed from the indices matches the published 2026 rates to within 0.01 percentage points, and the tables use the published rates.

Food inflation is measured by the Consumer Food Price Index (CFPI) and taken from each monthly release. Final figures are used where a later release superseded the provisional ones; for August and October 2026 only provisional figures were available to us. Division-level indices and inflation (12 divisions, 43 groups) for October 2026 come from [2] and the corresponding January figures from [1]. Rural and urban division weights come from the weighting tables in [1]. State and union territory figures come from the state annexures of the same releases. Chandigarh has no rural market and is excluded from sector comparisons, which leaves 35 units. Prices are collected by field staff of the National Statistics Office from 1,465 villages and 1,407 urban markets, the latter including online markets [2].

3.3 Measures

Inflation is the year-on-year percentage change in the index [1]. The rural–urban gap is the rural rate minus the urban rate, in percentage points (pp). Month-on-month change is 100 times the difference of the natural logarithms of consecutive index values.

3.4 Decomposition of the rural–urban gap

MoSPI compiles higher-level indices with a Young (modified Laspeyres) formula [1], [10], so that a sector's all-items index is a weighted sum of its division indices with fixed base weights. We checked this against the published figures. Applying the weights in [1] to the October division indices reproduces the published rural and urban all-India indices (110.73 and 109.22) exactly, and the same holds for January. The identity permits an exact accounting. For sector s (rural or urban), let $w_{s,i}$ be the base weight of division i, $I_{s,i,t}$ its index and $\pi_{s,i,t}$ its year-on-year inflation. The share of division i in the sector's spending one year earlier, valued at those prices, is

$$s_{s,i} = w_{s,i}\, I_{s,i,t-12} \,/\, \Sigma_j\, w_{s,j}\, I_{s,j,t-12} \qquad (1)$$

and sector inflation is exactly the share-weighted average of division inflation:

$$\pi_s = \Sigma_i\, s_{s,i}\, \pi_{s,i} \qquad (2)$$

The prior-year division index is recovered from the current index and the published inflation rate. Differencing the two sectors and splitting the result around midpoints, in the spirit of the Oaxaca–Blinder decomposition [11], [12], gives

$$\pi_R - \pi_U = \Sigma_i (s_{R,i} - s_{U,i}) (\pi_{R,i} + \pi_{U,i})/2 + \Sigma_i (s_{R,i} + s_{U,i})/2 (\pi_{R,i} - \pi_{U,i}) \quad (3)$$

The first sum is the composition effect: the part of the gap that exists because rural and urban households spend differently, with each division valued at its average inflation. The second is the price effect: the part that exists because the same division inflates at different rates in the two sectors, weighted at average shares. The two add up to the gap with no residual. The decomposition is carried out at the division level, where sector weights are published in [1]. Group-level comparisons in Section 4 are unweighted.

3.5 Statistical tests

Persistence of the gap is assessed with an ordinary least squares trend on the ten monthly gaps and with Kendall's rank correlation against time. Month-on-month differences between sectors are compared with paired t-tests and, because samples are small and normality is doubtful, with Wilcoxon signed-rank tests [13] and sign tests. Differences in dispersion are tested with the Brown–Forsythe test [14]. Breadth is assessed by counting the divisions, groups and states in which rural inflation exceeds urban inflation, with paired tests on the differences. All tests are two-sided and all calculations were done in Python with NumPy and SciPy. With 10 to 35 observations and serially dependent monthly data, p-values should be read as rough guides and not as sharp thresholds.

3.6 Ethical considerations

The study uses published, aggregate and anonymous statistics from a government agency. It involves no human participants, no personal data and no experiments, so institutional ethics approval was not required. Sources are cited throughout, and the authors' declaration of interests is given in the accompanying ethical statement.

IV. Results and Discussion

4.1 Headline and food inflation, January to October 2026

Table 1 gives the monthly rates. In January the rural and urban headline rates were two hundredths of a percentage point apart, with urban slightly ahead. The gap turned positive in February and widened in every month after that, reaching 1.20 pp in September and 1.22 pp in October (Fig. 1). A straight line fits the ten points well, adding 0.12 pp per month ($R^2 = 0.95$), and because the gap rises in each successive month its Kendall rank correlation with time is 1.0 ($p < 0.001$). Between January and October rural inflation rose by 3.9 pp and urban inflation by 2.7 pp. H1 is supported, with the obvious reservation that ten points of a trending series make a short record.

Table 1. Year-on-year headline and food inflation by sector, January–October 2026 (%)

	Headline CPI				Food (CFPI)			
Month	**Rural**	**Urban**	**Comb.**	**Gap**	**Rural**	**Urban**	**Comb.**	**Gap**
Jan	2.73	2.75	2.74	−0.02	1.96	2.44	2.13	−0.48
Feb	3.37	3.02	3.21	0.35	3.46	3.48	3.47	−0.02
Mar	3.63	3.11	3.40	0.52	3.95	3.71	3.87	0.24
Apr	3.74	3.16	3.48	0.58	4.26	4.10	4.20	0.16
May	4.25	3.53	3.93	0.72	4.85	4.66	4.78	0.19
Jun	4.74	3.93	4.38	0.81	5.45	5.09	5.32	0.36
Jul	4.84	3.96	4.45	0.88	5.79	5.05	5.52	0.74
Aug	5.24	4.31	4.83	0.93	6.13	5.64	5.95	0.49
Sep	6.08	4.88	5.54	1.20	8.06	7.18	7.74	0.88

Oct	6.63	5.41	6.09	1.22	9.09	8.68	8.94	0.41

Note: Comb. = combined; Gap = rural minus urban, in percentage points. Figures are published MoSPI rates [1], [2], [9]. August and October 2026 are provisional. Source: MoSPI.

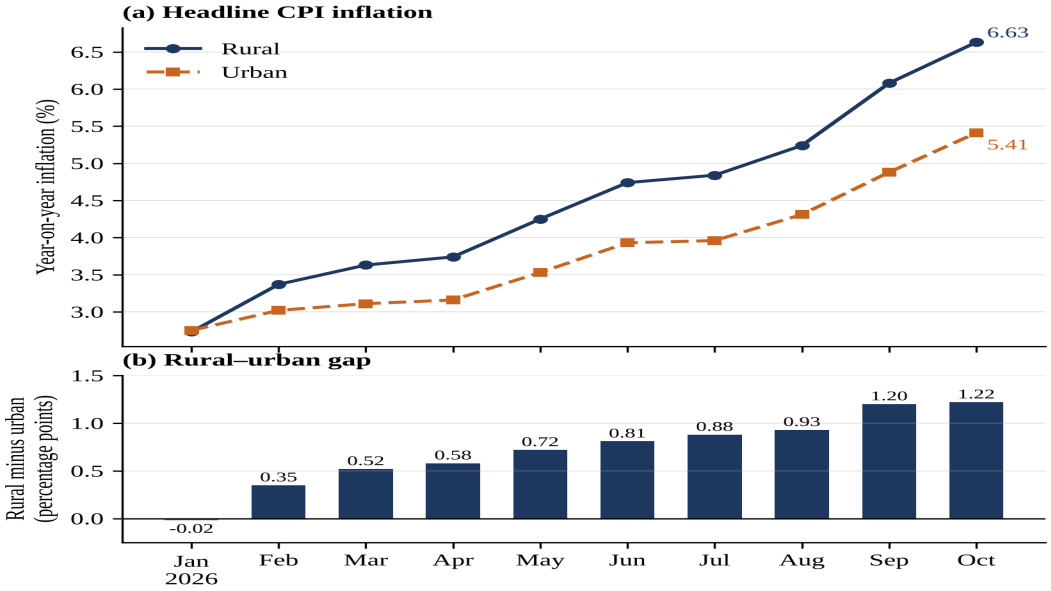

Figure 1. Headline CPI inflation by sector (a) and the rural–urban gap (b), January–October 2026. Source: MoSPI [2], [9].

Food tells the same story, only louder. Combined CFPI inflation rose from 2.13 per cent in January to 8.94 per cent in October, with the steepest step in September, and headline and food inflation move almost in lockstep (correlation 0.99). But the sector pattern in food has not been constant. In January and February urban food inflation was the higher of the two, by 0.48 and 0.02 pp. From March onward rural food inflation has been higher in every month, by 0.88 pp in September and 0.41 pp in October (Fig. 2a).

Part of the September jump is a base effect and not fresh price pressure. The combined food index fell by 0.35 per cent in September 2025 and by a further 0.17 per cent in October 2025 [1], [2]. In the same two months of 2026 it rose by 1.32 and 0.94 per cent. A low base in the autumn of 2025 therefore flattered the year-on-year comparison, and it will begin to drop out of the calculation in coming months.

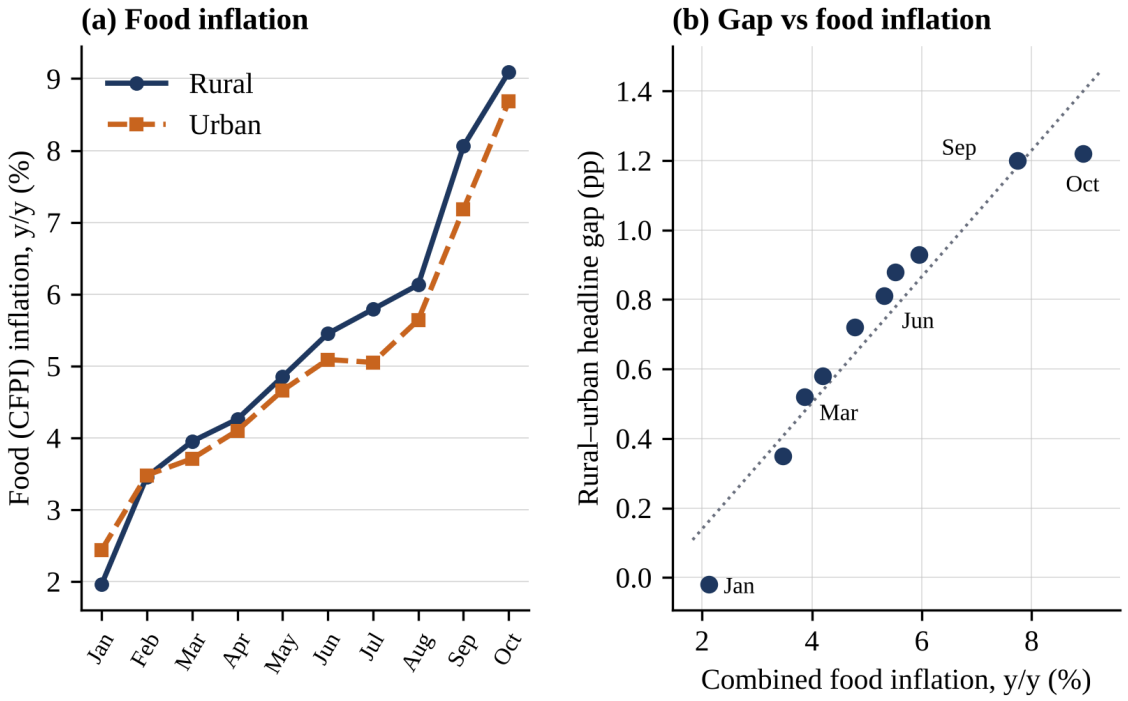

Figure 2. Food (CFPI) inflation by sector (a) and the headline gap against combined food inflation (b), January–October 2026. Dotted line: OLS fit. Source: MoSPI [2], [9].

Across the ten months the headline gap and combined food inflation are strongly related ($r = 0.96$, Fig. 2b). That figure should not be over-read, because two trending series will correlate almost whatever the economics. In month-to-month changes the correlation falls to 0.63 and is only marginally significant ($n = 9$, $p = 0.07$). Food is plainly part of the explanation. These data do not show that it is all of it.

4.2 Month-on-month dynamics and volatility

Over the whole period from February 2025 to October 2026 (21 monthly changes) rural prices rose by 0.40 per cent a month on average and urban prices by 0.35 per cent (Table 2). The difference of 0.05 pp is not statistically distinguishable from zero (paired $t = 1.50$, $p = 0.15$; Wilcoxon $p = 0.18$). Rural changes were more dispersed (standard deviation 0.40 against 0.29), but a Brown–Forsythe test cannot reject equal variances ($p = 0.17$). On volatility, then, we find what the Reserve Bank found for the older series [3]: rural and urban are hard to tell apart.

The full-sample average hides a break. Through April 2026 the two sectors moved together. Across the 15 monthly changes from February 2025 to April 2026 the mean difference between rural and urban prices is 0.002 pp, and rural prices rose faster in only 8 of 15 months. From May the pattern changes. In each of the six months from May to October rural prices rose faster than urban prices. The average monthly difference was 0.17 pp (paired $t = 4.05$, $p = 0.010$; sign test $p = 0.031$), set against average monthly rises of 0.84 per cent in rural and 0.67 per cent in urban areas. A test of the difference between the two regimes gives $t = 3.00$ ($p = 0.010$). This is a shift in the speed of price rises, not an increase in variability: the standard deviation of rural monthly changes was 0.32 before May and 0.18 after. H4 is therefore supported for the speed of rural price rises in the acceleration phase and not for volatility.

Table 2. Month-on-month price changes, rural and urban, by period (%)

Period	*n*	Rural mean	Urban mean	Difference	Rural SD	Urban SD	Months rural > urban
Feb 2025–Apr 2026	15	0.223	0.222	0.002	0.318	0.218	8 of 15
May–Oct 2026	6	0.841	0.669	0.172	0.184	0.173	6 of 6
Full sample	21	0.400	0.350	0.050	0.401	0.289	14 of 21

Note: Changes are 100 × the log difference of consecutive indices; Difference = rural minus urban mean (pp); SD = standard deviation. Paired *t*-tests of the difference: Feb 2025–Apr 2026, $t = 0.05$, $p = 0.96$; May–Oct 2026, $t = 4.05$, $p = 0.010$ (sign test $p = 0.031$); full sample, $t = 1.50$, $p = 0.148$ (Wilcoxon $p = 0.179$; Brown–Forsythe test of equal variances $p = 0.169$). Source: authors' calculations from MoSPI indices [2].

Food drove that acceleration. Between April and October the CFPI rose by 8.7 per cent in rural areas and 8.1 per cent in urban areas, against all-items rises of 5.2 and 4.1 per cent. The combined food index rose by 1.7 per cent in June and 2.1 per cent in July.

Food volatility, in the sense of the size of monthly swings, was not unusually high in 2026. If anything it was lower. The standard deviation of monthly changes in combined CFPI was 0.85 per cent in the twelve months to January 2026, a period with seven monthly falls, and 0.45 per cent from May to October 2026, with no falls at all (Brown–Forsythe $p = 0.35$). What changed was the drift: the mean monthly rise went from 0.18 to 1.36 per cent. The series is less volatile than persistently rising. Beneath the aggregate, individual items swung violently. Between January and October onion inflation went from −29.3 to +116.2 per cent and garlic from −53.1 to +60.7 per cent [1], [2], the kind of item-level dispersion that makes a food index sensitive to a handful of vegetables.

4.3 Composition or prices?

Table 3 and Fig. 3 split the October gap of 1.21 pp (1.22 pp in published rates; the difference is rounding) into its two channels. Composition accounts for 0.58 pp and within-division price differences for 0.63 pp. The popular reading, that the gap is a weighting artefact, is therefore about half right. The larger rural share of food spending (42.0 against 30.4 per cent of spending a year earlier, at the prices of that time) adds 0.98 pp. A nearly equal and opposite item pulls the other way. Urban households put 24.5 per cent of their spending into housing against 11.5 per cent for rural households, and because rents rose only 2.2 to 2.8 per cent, this composition effect subtracts 0.40 pp. Outside food and housing the composition effect is essentially nil (0.004 pp). The weighting story is a story about two divisions.

Table 3. Decomposition of the October 2026 rural–urban inflation gap by division

Division	Share R (%)	Share U (%)	Infl. R (%)	Infl. U (%)	Composition (pp)	Price (pp)	Total (pp)
Food & beverages	42.0	30.4	8.70	8.19	+0.98	+0.18	+1.16
Clothing & footwear	7.3	5.5	5.61	3.89	+0.08	+0.11	+0.19
Personal care & misc.	5.6	5.3	10.84	9.24	+0.03	+0.09	+0.11
Paan, tobacco	3.7	2.1	4.70	5.42	+0.08	-0.02	+0.06
Furnishings	4.6	4.3	4.37	3.36	+0.01	+0.04	+0.06
Health	6.7	5.3	1.98	2.16	+0.03	-0.01	+0.02
Info & comm.	3.6	3.5	3.22	3.09	+0.00	+0.00	+0.01

Division	Share R (%)	Share U (%)	Infl. R (%)	Infl. U (%)	Composition (pp)	Price (pp)	Total (pp)
Recreation	1.4	1.7	2.99	2.05	-0.01	+0.01	+0.01
Transport	8.4	8.7	5.95	5.71	-0.02	+0.02	+0.00
Restaurants & accom.	2.9	4.1	10.24	9.90	-0.12	+0.01	-0.11
Education	2.4	4.6	3.10	4.61	-0.08	-0.05	-0.14
Housing & fuels	11.5	24.5	3.73	2.41	-0.40	+0.24	-0.16
All items	**100.0**	**100.0**	**6.63**	**5.41**	**+0.58**	**+0.63**	**+1.21**

Note: Share = division share of sector spending a year earlier at those prices (Eq. 1); Infl. = published year-on-year inflation; Composition and Price follow Eq. 3; R = rural, U = urban. Divisions are sorted by total contribution. Totals may differ from published gap (1.22 pp) through rounding. Source: authors' calculations from MoSPI [1], [2].

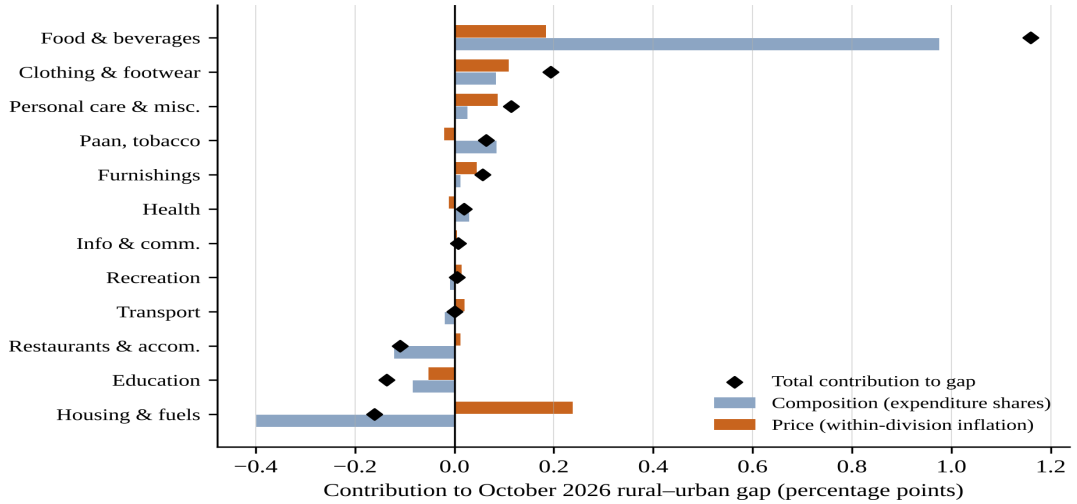

Figure 3. Contribution of each division to the October 2026 rural–urban gap, split into composition and price effects. Source: authors' calculations from MoSPI [1], [2].

The price channel is broader. Rural inflation was higher than urban inflation in nine of the twelve divisions. The widest differentials were in clothing and footwear (1.72 pp), personal care and miscellaneous items (1.60), housing and fuels (1.32), furnishings (1.01) and recreation (0.94); food itself carried a rural premium of 0.51 pp. The exceptions were paan and tobacco, health and education, where urban inflation was higher. At average shares these differences add 0.63 pp to the gap, of which food supplies 0.18 and housing and fuels 0.24. Two counterfactuals make the same point from another angle. Had urban households faced rural price changes in each division, their inflation would have been 6.08 per cent instead of 5.41. Had rural households faced urban price changes, theirs would have been 6.03 per cent instead of 6.63. Neither baskets nor prices alone close the gap.

A second way of cutting the same data is to ask how many points of each sector's inflation come from food. In rural areas food and beverages contribute 3.65 of the 6.63 points (55 per cent), and in urban areas 2.49 of 5.41 (46 per cent). Everything else contributes almost identically, 2.98 against 2.92 points. Seen this way, food accounts for 1.16 of the 1.21 points of the gap. The two accounts do not conflict. Food is where the gap comes from; the first decomposition adds that the food gap is partly a matter of weights and partly a matter of prices.

Running the same decomposition on January's provisional division data shows how the gap grew. In January the gap was −0.03 pp, made up of +0.12 from composition and −0.16 from prices. By October composition had risen by 0.46 pp and prices by 0.79 pp, so about 63 per cent of the widening came from rural prices outpacing urban prices division by division, and the rest from baskets meeting a food shock. At the finer level of 43 groups, rural inflation was higher in 27 and lower in 16, with a mean difference of 0.36 pp (Wilcoxon $p = 0.08$). That comparison is unweighted and is weaker evidence than the division results.

4.4 Breadth across states

The pattern is not the product of a few states. In October rural inflation exceeded urban inflation in 32 of the 35 states and union territories with both sectors, against 18 in January (Table 4, Fig. 4). The mean gap was 1.03 pp (median 1.12), the paired difference is overwhelmingly significant (Wilcoxon $p < 0.001$) and the gap widened between January and October in 31 units. The largest gaps were in Uttar Pradesh (2.32 pp), Chhattisgarh (2.13), Odisha (2.11), Ladakh and Manipur (1.85 each) and Assam (1.71). Only Dadra and Nagar Haveli and Daman and Diu (urban higher by 1.31 pp), Goa (0.39) and Jammu and Kashmir (0.04) went the other way. Rural and urban inflation across states are closely linked ($r = 0.84$). A regression of rural on urban inflation gives an intercept of 1.72 and a slope of 0.86 ($R^2 = 0.71$), so a state with urban inflation of 5 per cent would typically show rural inflation of about 6 per cent. H3 is thus supported at the division and state levels, and only suggestively at the group level.

Table 4. State and union territory comparison of rural and urban inflation, January and October 2026

Measure	January 2026	October 2026
States/UTs with rural inflation above urban (of 35)	18	32
Mean rural–urban gap (pp)	0.08	1.03
Median gap (pp)	0.04	1.12
Gap weighted by state weights (pp)	0.14	1.32
Largest rural excess (pp)	2.61 (Andaman and Nicobar Islands)	2.32 (Uttar Pradesh)
Largest urban excess (pp)	1.72 (Manipur)	1.31 (Dadra and Nagar Haveli and Daman and Diu)
Paired t-test, rural vs urban	t = 0.60, p = 0.55	t = 8.02, p < 0.001
Wilcoxon signed-rank test	p = 0.66	p < 0.001

Note: 35 states and union territories with both rural and urban markets (Chandigarh excluded). Gap = rural minus urban inflation. State weights are the combined-sector weights published by MoSPI. January figures are provisional. Source: authors' calculations from MoSPI [1], [2].

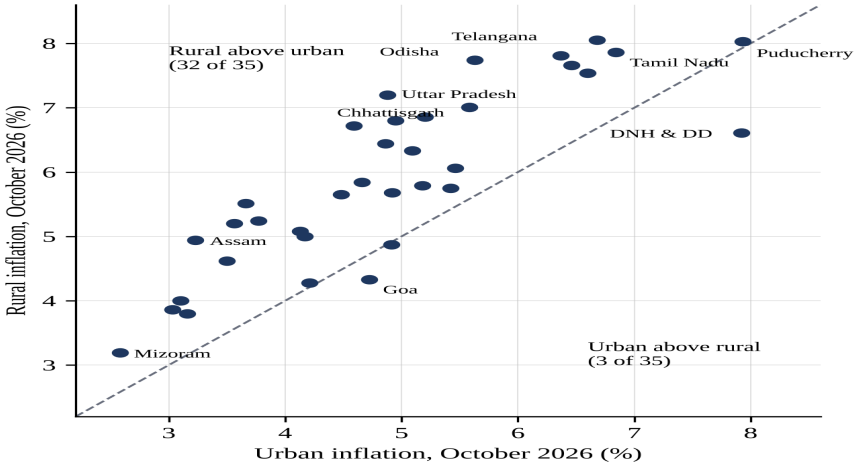

Figure 4. Rural and urban inflation by state and union territory, October 2026. Points above the dashed 45-degree line have higher rural than urban inflation. Source: MoSPI [2].

4.5 The shape of the price-change distribution

A last check concerns the shape of the distribution of price changes. Across the 43 consumption groups in October, weighted by their all-India shares [2], mean group inflation was 5.99 per cent, the weighted median 5.16 per cent and a 15 per cent trimmed mean 5.88 per cent. (The weighted mean differs a little from the published 6.09 because base weights are not updated for relative price changes.) A mean well above the median is the footprint of a right-skewed distribution (weighted skewness 1.70), the kind of pattern that Ball and Mankiw [4] associate with relative-price shocks and that Bryan and Cecchetti [5] would have us look through. The skew is not the work of a few tiny items, though. Food, with a weight of 34.8 per cent, stands at 8.94 per cent inflation, while the highest-inflation groups, other personal effects (25.4 per cent, a group that holds gold and silver jewellery) and food-serving services (10.1 per cent), carry weights of only 1.4 and 3.3 per cent. The headline is being pulled up mainly by one very large group, which is why the trimmed mean stays close to the headline.

4.6 Comparison with existing literature

On volatility our results agree with the Reserve Bank's study of the older series, which found rural and urban inflation alike in trend, cycle, persistence and volatility [3]; we find no significant difference in the dispersion of monthly changes either (Table 2). On the direction of divergence in food upswings the picture is mixed. The Reserve Bank reported that urban food inflation tends to run above rural food inflation when food prices are rising [3]. That was true in January and February 2026, but from March rural food inflation has been higher in every month, including through the sharpest stretch of the upswing. Whether this is a property of the new basket, of the new rural price sample or of the particular supply shock behind the food rise, ten months of data cannot say.

On persistence, [3] concluded that rural–urban divergences are transient. Our gap has not yet turned around. It would be premature to read that as a contradiction, since the earlier finding rests on many years of data and a gap that is still opening after ten months says little about where it settles. If the earlier result carries over, the gap should narrow once food prices stabilise. On spillovers, Anwar and Guha [8] found no long-run link between food and non-food prices. We cannot test a long-run relation, but we note that non-food division inflation was higher in rural than in urban areas in eight of eleven divisions in October, which is at least compatible with some spread beyond food.

Taking stock of the hypotheses: H1 is supported; H2 is supported with a qualification, since composition and prices each account for about half of the October gap and housing weights pull the composition effect down; H3 is supported at division and state levels and suggestively at group level; and H4 is supported for the speed of rural price rises in the acceleration phase but not for volatility.

V. Conclusion

5.1 Summary of key findings

In the first ten months of India's 2024 CPI series the rural–urban gap in headline inflation grew from nothing to 1.22 percentage points, in step with a rise in food inflation from 2.1 to 8.9 per cent. An exact decomposition shows that the October gap is not simply a weighting artefact: differences in expenditure shares explain 0.58 pp, with food adding 0.98 pp and the heavier urban weight on slow-moving housing subtracting 0.40 pp, while within-division price differences explain 0.63 pp. The divergence is broad, visible in nine of twelve divisions and 32 of 35 states and union territories. Rural prices have risen faster than urban prices in every month since May 2026, though variability in the two sectors does not differ. Most of the widening since January came from prices, not from baskets.

5.2 Implications for theory and practice

For theory, the results show that a relative-price shock to one large category is not distributionally neutral even inside a single national index. How it shows up depends on baskets and on the local price paths of everything else, and a decomposition of the kind used here separates the two. They also caution against attributing sector gaps to food alone, since the composition effect cuts both ways.

For practice, four implications follow. Monetary policy makers who read the combined index should also read the sector indices: a headline of 6.09 per cent conceals a rural rate above 6.6 per cent. Wages or benefits indexed to the combined index would, other things equal, under-compensate rural households and over-compensate urban ones by roughly the size of the gap. Statistical agencies could usefully publish sector contributions and group-level sector weights alongside each release so that the composition and price channels can be tracked as they happen. And food policy that addresses supply should consider rural market access explicitly, since rural prices rose faster even within food.

5.3 Limitations

The principal limitation is length. Ten monthly gaps and 21 monthly changes cannot support firm statements about persistence or long-run relationships, and tests on serially dependent data are rough guides. October figures and parts of the food series are provisional and may be revised. The decomposition uses base-year expenditure weights from the 2023–24 survey and division-level data, so it cannot see differences inside divisions. We do not identify causes: weather, transport, procurement and market structure may all matter, and this study cannot discriminate among them. Group-level sector weights were not used. Finally, the new series has no history of its own against which to judge whether ten months are typical.

5.4 Recommendations for future research

Once three years of data exist, a test of convergence between rural and urban inflation, such as the error-correction approach used in earlier work [3], would show whether the gap closes. Item- and market-level price data could explain why rural food prices rose faster than urban ones, and supply-side data on rainfall, transport costs and procurement could be linked to them. Household-level data from the consumption expenditure survey could be used to compute inflation by expenditure class, which would show who is hit hardest inside each sector. Finally, pass-through from food to wages and to inflation expectations, which the earlier Indian literature has examined on the old series [6]–[8], deserves a fresh look on the new one.

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